

Industrial Market Trends Sacramento

Grubb & Ellis Research

Second Quarter 2006



Vacancy Down Yet Another Notch

Executive Summary

Over 800,000 square feet of net absorption and a limited supply of vacant new construction deliveries pushed the industrial vacancy rate down to 13.2 percent during the quarter. This figure is the region's lowest industrial vacancy in five years. Warehouse/distribution centers comprised the primary source of net absorption this quarter. The almost one million square feet of positive net absorption achieved during the current quarter was well within the average range for the first six months of the year. The 1.8 million square feet achieved so far this year is indicative of a very healthy market and is on target for achieving annual goals.

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Sacramento Industrial Market Trends

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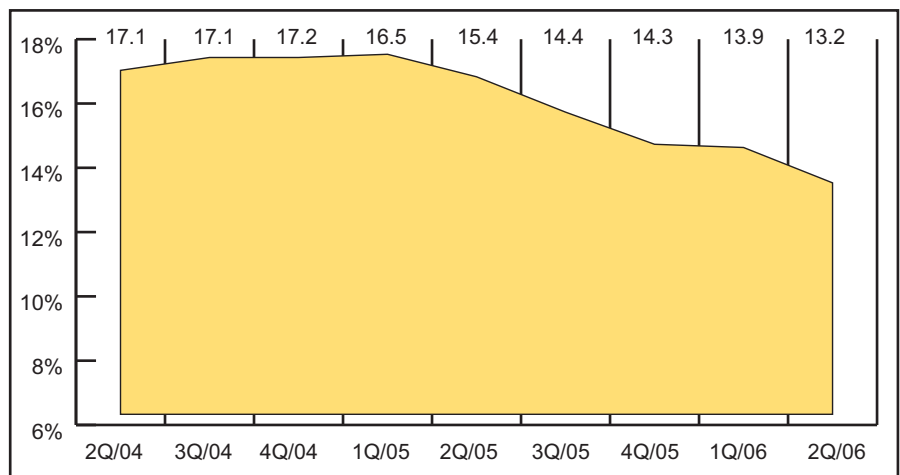
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The local economy fared well during the quarter. Latest figures available indicate a 4.3 percent unemployment rate for the four-county MSA at the end of May and an additional 3,800 payroll jobs during the last month, alone. Of note, the residential/commercial construction industry posted an increase of 2,100 jobs in May, presumably due to the rains having ceased and development resuming. Government payrolls grew by 700 jobs during the last month, 200 of the positions in public education. By way of comparison, the state and national unemployment rates were 4.6 and 4.4 percent at the end of May.



Industrial Vacancy Rate*

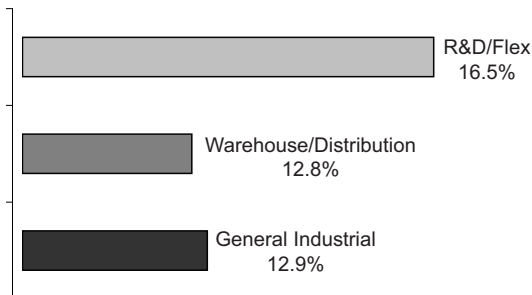
* All Product Types

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Market Assessment

Most of the industrial submarkets posted positive, but unremarkable occupancy gains during the quarter. In fact, only the Highway 50/Sunrise Corridor and Northgate submarkets posted losses.

Vacancy by Product Type



At 16.5 percent across all submarkets, vacancy among the three property types remains highest among R&D/Flex properties. The South Sacramento and Power Inn/South Watt submarkets are each currently enduring 30 percent-plus vacancy rates among this property type. The markets with the lowest R&D/Flex vacancy rates are also those with the smallest inventory of this property type. Warehouse/Distribution vacancy is at the lowest it has been for the last five years, literally ticking down incrementally over the quarters.

Lease rates remained little unchanged over the quarter and the year, closing at \$0.41, \$0.65 and \$0.76 NNN per month for Warehouse/Distribution, General Industrial and R&D Flex properties, respectively. This compares to the \$0.35, \$0.63 and \$0.76 per square foot reported last quarter and the \$0.41, \$0.63 and \$0.83 reported last year.

New construction completions ebbed during the quarter, with fewer than 300,000 square feet being added to the market inventory. Of these completions, less than half the space remains vacant, posing virtually no effect on the vacancy rate. Completions were primarily smaller, less-than-30,000-square-foot buildings across nearly all the submarkets. There is currently over one million square feet of construction underway in the four-county market. Of this total, the average size building is approximately 15,000 square feet. The Roseville/Rocklin submarket is the site of more construction than any other submarket.

New and active tenant requirements totaled 120 prospects and averaged 33,000 square feet. The nine requirements for space greater than

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100,000 square feet indicated a preference for space in any of the Sacramento submarkets or anywhere in the greater Sacramento area, suggesting that these tenants are most likely at the very early stages of their facility searches. Four of these companies indicated the specific needs typically required by third party logistics companies, who are usually interested in our market because of its comparably lower lease rates (vs. the Bay Area), well qualified and abundant labor pool and relatively affordable employee housing. The remaining lease requirements were fairly evenly spread over the submarkets, with Highway 50/Sunrise and Rancho Cordova, in particular, seeing more demand from users in the 10,000 to 50,000 square foot range. Look for net absorption in this submarket to return to positive levels in the next four to six months.

Forecast

While vacancy is not anticipated to increase dramatically over the next six months, neither is it anticipated to decrease substantially. Rather, 2006 will be characterized by small incremental shifts in vacancy and net absorption. Minor and temporary vacancy increases may occur as the market assimilates construction completions into the inventory prior to absorbing them. Further, with just one million square feet of net absorption realized during the first two quarters of the year and the limited number of very large tenants seeking space in the market, it seems safe to postulate that net absorption in 2006 will be typical by historical standards. Look for at least one million square feet more to be achieved during the next six months and vacancy to hover in the 12 to 13 percent range across all submarkets.

Opportunities and Challenges

Maintaining the momentum set during the first half of the year will prove a challenge for the industrial market during the second half of 2006. However, as in the past, the Sacramento area offers industrial users several amenities that will continue to attract major users to our market. Woodland's trucking transport hub, the vast freeway system that intersects in the market and the still favorable and competitive lease rates found here are all opportunities.

Major Transactions

Grubb & Ellis is pleased to announce that it represented the following companies in industrial transactions during the second quarter of 2006:

Dierssen Family Partnership, LLC. \$2,500,000 Investment Sale 3151 Dwight Rd Elk Grove, CA Kelly Rivett	Tubz, Inc. 12,215 square feet 815 National Dr Sacramento, CA Matt Cologna, Bryce MacDonald	Restaurant Technologies, Inc. 10,515 square feet 8583 Elder Creek Rd Sacramento, CA Matt Cologna, Bryce MacDonald
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Industrial Market Terms and Definitions

Inventory: Industrial Inventory includes all multi-tenant, single tenant and owner-occupied buildings at least 10,000 square feet.

Construction Type: Speculative ("spec") construction is designed to attract tenants likely to be in the market when the project is leasing. Build-to-suit construction is designed for a specific tenant.

Industrial Product Types: Industrial buildings are categorized as warehouse/distribution, general industrial, R&D/flex and incubator based on their physical characteristics including percent office build-out, clear height, typical bay depth, typical suite size, type of loading and typical uses.

Vacancy and Availability: The vacancy rate is the amount of physically vacant space divided by the inventory. The availability rate is the amount of space available for lease divided by the inventory.

Net Absorption: The net change in physically occupied space over a period of time.

Asking Rent: The dollar amount asked by landlords for available space expressed in dollars per square foot per year in most parts of the country and dollars per square foot per month in areas of California and selected other markets. Industrial rents are expressed as triple net where all costs including, but not limited to, real estate taxes, insurance and common area maintenance are borne by the tenant on a pro rata basis.

Average Weighted Asking Rent: An average market rent where the asking rent for each building in the market is weighted by the amount of available space in the building.

Industrial Market Snapshot Sacramento Second Quarter 2006

By Submarket (All Product Types)	Total SF(1)	Vacant SF (4)	Vacant %	Net Absorption		Under Construction(2)	Asking Rent(3)	
				Current Qtr.	Year-to-date		Wh./Dist.	R&D/Flex
Downtown	6,761,146	707,443	10.5%	113,969	169,744	-	\$0.29	\$0.56
Northgate/Natomas	14,132,219	1,731,146	12.2%	(96,689)	(173,013)	315,460	\$0.38	\$0.67
West Sacramento	15,051,369	1,170,818	7.8%	157,854	242,131	-	\$0.32	\$0.65
South Sac./Elk Grove	5,478,563	546,533	10.0%	134,215	224,490	39,416	\$0.32	\$0.67
Power Inn/South Watt	21,114,759	2,757,744	13.1%	156,677	529,416	59,360	\$0.30	\$0.75
Highway 50/Sunrise	16,968,914	1,713,816	10.1%	105,208	(70,264)	140,000	\$0.38	\$0.75
Rose./Rock./Linc.	15,007,682	2,212,186	14.7%	8,151	(80,562)	391,821	\$0.37	\$1.00
Folsom/El Dorado Hills	3,724,822	188,704	5.1%	13,458	41,329	127,240	\$0.50	\$1.20
I-80/McClellan	15,949,058	3,554,470	22.3%	7,485	796,625	-	\$0.37	\$0.66
Woodland	10,413,550	1,865,577	17.9%	279,577	(141,817)	-	\$0.25	\$0.65
Total	124,602,082	16,448,437	13.2%	879,905	1,821,713	1,073,797	\$0.41	\$0.76
By Product Type								Average Asking Rate
(All Submarkets)								By Product Type
W'house/Distrib.	73,110,110	9,341,959	12.8%	860,291	544,472	771,652	\$0.41	
General Industrial	38,289,019	4,933,122	12.9%	101,226	1,143,803	134,546	\$0.65	
R&D/Flex	13,202,953	2,173,356	16.5%	(81,612)	133,438	167,599	\$0.76	
Total	124,602,082	16,448,437	13.2%	879,905	1,821,713	1,073,797	\$0.53	

(1) Inventory includes multi-tenant and single tenant buildings with at least 10,000 sq. ft.

(2) Space under construction includes speculative and build-to-suit for lease projects.

(3) Asking rates are per square foot per month full service. Rates for each building are weighted by the size of the building.

(4) Vacant space includes both vacant direct and vacant sublease space.

* Grubb & Ellis statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures.